SOCIAL SECURITY EARNINGS TEST/Funding of the Bill

SUBJECT: **Senior Citizens' Freedom to Work Act . . . S. 1372. McCain motion to waive section 302(f) of the Budget Act for the consideration of S. 1372.**

ACTION: MOTION REJECTED, 53-42

SYNOPSIS: As introduced, S. 1372, the Senior Citizens' Freedom to Work Act, will raise the exempt amount under the Social Security earnings limit for Social Security beneficiaries age 65-69 year by year until it reaches $30,000 in the year 2002. (The Social Security earnings test penalizes Social Security beneficiaries for working by reducing their benefits for money they earn over a set limit. Currently, the limit for beneficiaries age 62-64 is $8,040. For every $2 earned over that limit, such beneficiaries lose $1 in Social Security benefits. For beneficiaries age 65-69, the limit is currently $11,280. For every $3 earned over that limit, such beneficiaries lose $1 in Social Security benefits. Beneficiaries age 70 and older are not penalized.) The limits for beneficiaries age 65-69 will be as follows: 1996, $14,500; 1997, $17,500; 1998, $20,000; 1999, $22,500; 2000, $25,000; 2001, $27,500; and 2002, $30,000. In future years the limit will be raised by an automatic cost-of-living adjustment (COLA). The cost of this bill will be paid for by increasing the rate of interest that is paid on Social Security trust fund monies that are invested in United States securities, and any increased costs the Treasury incurs as a result of this change will be offset by decreasing nonexempt accounts within the discretionary spending budget.

During debate, Senator Simpson raised a point of order that the bill violated section 302(f) of the Budget Act by increasing outlays in 1996 and over the next 5 years in excess of the Finance Committee's allocations for those time periods. Senator McCain then moved to waive that section for the consideration of the bill.

NOTE: A three-fifths majority (60) vote of the Senate is required to waive section 302(f) the Budget Act. Following the failure of the motion to waive, as required by section 312(b) of the Budget Act, the bill was referred to the committee of jurisdiction (the Finance Committee) for further consideration.

Those favoring the motion to waive contended:

(See other side)

YEAS (53)			NAYS (42)			NOT VOTING (4)	
Republicans (41 or 82%)		**Democrats (12 or 27%)**	**Republicans (9 or 18%)**	**Democrats (33 or 73%)**		**Republicans (3)**	**Democrats (1)**
Abraham	Inhofe	Baucus	Bond	Akaka	Kennedy	Hatfield-2AN	Bradley-4
Ashcroft	Jeffords	Biden	Campbell	Bingaman	Kerrey	Lugar-2	
Bennett	Kempthorne	Bryan	Chafee	Boxer	Kohl	Thurmond-2AY	
Brown	Kyl	Ford	Cochran	Breaux	Lautenberg		
Burns	Lott	Graham	Cohen	Bumpers	Leahy		
Coats	Mack	Harkin	Domenici	Byrd	Levin		
Coverdell	McCain	Heflin	Gorton	Conrad	Lieberman		
Craig	McConnell	Hollings	Kassebaum	Daschle	Mikulski		
D'Amato	Murkowski	Kerry	Simpson	Dodd	Moynihan		
DeWine	Nickles	Moseley-Braun		Dorgan	Murray		
Dole	Pressler	Reid		Exon	Nunn		
Faircloth	Roth	Simon		Feingold	Pell		
Frist	Santorum			Feinstein	Pryor		
Gramm	Shelby			Glenn	Robb		
Grams	Smith			Inouye	Rockefeller		
Grassley	Snowe			Johnston	Sarbanes		
Gregg	Specter				Wellstone		
Hatch	Stevens						
Helms	Thomas						
Hutchison	Thompson						
	Warner						

EXPLANATION OF ABSENCE:
1—Official Buisiness
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

The Social Security earnings limit is a Depression-era relic that we have been trying unsuccessfully to slay for the past several Congresses. It was originally enacted as a means of stopping senior citizens from working during the Depression in order to make more jobs available for younger workers who were supporting families. Basically, the test taxes senior citizens by taking away part of their Social Security benefits for each dollar they earn over a set amount. Currently, senior citizens age 65 to 69 lose $1 in benefits for every $3 they earn over $11,280. Combined with other State and local taxes, and with the new tax that President Clinton and Democrats imposed on Social Security benefits in 1993, some senior citizens find their earnings over $11,280 taxed at a rate of 88 percent. Every Senator admits that this tax is a horrible outrage, but every year when we try to end it some excuse is found to oppose our efforts. This year is no different.

On some occasions in the past our efforts to overturn the earnings limit have been opposed because they have been made on appropriations bills. That excuse does not apply in this case. On other occasions, our efforts have been opposed because we did not provide an offset. We have never felt there was a need to provide an offset, because we think that lifting the earnings test will increase Social Security revenues, not decrease them, but we have nevertheless proposed an offset in this bill so as to remove that excuse.

Unfortunately, now an objection has been raised to the offset. Our colleagues complain that paying higher interest rates on Social Security bonds in order to cover the supposed increased costs of lifting the earnings test is a "gimmick" that will take $10 billion from general revenues over the next 7 years. While we are talking about "gimmicks" we should mention that the idea that this provision will cost any money is itself a gimmick. Right now, millions of senior citizens limit their earnings drastically to stay under the Social Security earnings limit. If the limit is removed, they will earn much more money and they will thus pay much more in Social Security taxes. We fully expect that lifting the earnings limit will result in a net gain in Social Security revenues.

Nevertheless, under static analysis budget scoring rules, we are required to assume that no longer taxing senior citizens at an 88 percent rate will not have any effect on their inclination to work, so we are required to come up with an offset which our colleagues call a "gimmick." This "gimmick" will be to increase the rate paid on Social Security Treasury bonds by .25 percent. The current rate is not writ in stone--paying a slight bit more in interest will cover the supposed $10 billion cost of this bill. To offset this increase in the interest rate, non-exempt discretionary accounts will be cut across-the-board. The Congressional Budget Office tells us that the net deficit effect of this bill, by its static analysis scoring, will be $0. In reality, though, the net effect of this bill will be to reduce the deficit by cutting discretionary spending.

Senators have objected to this offset because they say we must preserve a strict separation between Social Security and other sources of money. Oddly, they did not make this complaint last week when the Senate "found" an extra $13.5 billion to spend on Medicare and Medicaid. Medicare is part of the Social Security system, yet our colleagues did not mind propping it up with $13.5 billion in money that did not come from its payroll tax. Perhaps it is not the principal that matters; perhaps repealing the Social Security earnings test is just not important enough for Senators to alter their precious accounting rules.

It is important enough for us. We do not intend to let this issue die. If we fail here, we will be back again and again until our colleagues relent and join us in repealing this unjust tax on America's senior citizens.

Those opposing the motion to commit contended:

We favor a repeal of the Social Security earnings limit, or at least a raising of the limit as proposed by this bill, but we do not support the funding mechanism that is in this bill. We understand the political potency of this issue, so we suppose that the motion to waive will succeed, but we must still stand in opposition.

From time to time, we believe it is important to review the history of the Social Security system. The system was established not as an insurance system, as some Senators like to claim, nor as a retirement pension system (though it has become that to many Americans), but as a supplemental income program for retirees. A little money was to be put in (2 percent at most), and a little money was to come back to those Americans who lived into their retirement years. When the program began, there were 16 workers for every retiree. The system was always a pay-as-you-go system; money that came in from current workers was to pay for current retirees. The trust fund "surplus" was not kept at a multiyear level as it is now. The program has always only taxed people at a flat rate up to a set level of income, and it has always paid steeply progressive benefits. From the beginning, it has thus served as a tax on moderate-income Americans to pay benefits to poor senior citizens.

Over the years, demographic changes and benefit increases by politicians anxious to curry favor with elderly Americans periodically led to tax increases that were then necessary to prevent insolvency. In 1983, one such increase moved the tax up to its current 15.3 percent level. That tax increase was expected to be a short-term fix for shortfalls exacerbated by a recession. However, the phenomenal economic growth that then occurred in the 1980s generated huge surpluses in tax collections over outlays, and the IOUs piled up in the trust fund. In 1990, an effort was made to stymie this growth and reform the program, but the partisan charge of "thievery" was then hurled based on the revisionist and patently false claim that the 1983 reform was intended to generate enormous surpluses to pay future generations. No one in 1983 intended for the Federal Government to solve Social Security's structural problems, which will soon have only 2 workers paying in for every 1 retiree, by raising taxes to generate "surpluses."

Those surpluses are just IOUs: in a little more than a decade, the Federal Government is going to have to raise hundreds of billions of dollars a year more than it collects in Social Security taxes in order to pay the benefits that are due. The word to describe this plan is "impossible." The way the Social Security system works is that Americans' earnings are taxed at 15.3 percent for the program. The money collected, like all Federal revenue that is collected, goes into the general fund of the Treasury. Every year, all the money the Federal Government collects, including for Social Security, is spent, and then additional amounts are borrowed and spent. To the extent that the Government spends less on Social Security beneficiaries than it collects in Social Security taxes, it writes out IOUs to the Social Security program. These IOUs are in the form of interest-bearing Treasury bonds, and they comprise the Social Security trust fund. The trust fund, thus, is itself something of an accounting gimmick. Even assuming that when Social Security outlays start exceeding receipts that it will be possible to raise the hundreds of billions necessary per year to cover the shortfall, the Social Security system's "trust fund" will be empty by 2029. Senators may demagogue this issue all they wish, but the fact is that this program must be reformed if it is to have any chance of surviving.

The reforms that need to be made must be made within the Social Security system itself. The discretionary budget is simply not large enough to provide the revenue that is needed to sustain the system as it is currently structured. It is this point which brings us back to our objection to the bill. This bill undeniable moves the Social Security system in the direction it needs to go--the basic problem is that we have too few workers paying for too few retirees. Removing the punishment on elderly workers staying in the workforce thus makes eminent sense. However, paying for the increased cost of this change by decreasing discretionary spending is a step in the wrong direction. These issues are separate--we should not allow this mandatory spending program to further dampen discretionary spending. It is time for Congress to stop ducking the hard decisions. All mandatory spending programs need to be fixed without raiding other programs. Therefore, we must reluctantly oppose the motion to waive.